Nova Scotia Petroleum Directorate
2001-2002 Accountability Report

October 15, 2002

Nova Scotia Petroleum Directorate
Our 2001-2002 Accountability Report

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Nova Scotia Petroleum Directorate Report **2001/2002 Accountability**

1. ACCOUNTABILITY STATEMENT

The accountability report for the Nova Scotia Petroleum Directorate for the year ended March 31, 2002, is prepared pursuant to the Provincial Finance Act (2002) and government policy and guidelines. These authorities require the reporting of outcomes against the Directorate's business plan information for the fiscal year 2001-2002.

We acknowledge that this accountability report is the responsibility of Directorate management. The report is, to the greatest extent possible, a complete and accurate representation of outcomes relatives to the goals and priorities set out in the Directorate business plan for the year.

Minister _____ CEO _____

2. MESSAGE FROM THE MINISTER

The 2001-2002 fiscal year was a landmark year for the Nova Scotia Petroleum Directorate. During this time-frame, the Directorate and the Department of Natural Resources held public discussions and established a comprehensive, long-term energy strategy for the province.

The strategy is the result of extensive consultations and advice. Seven public workshops were held around the province. The Premier's Energy Forum, "Open to the World", attracted a wide range of stakeholders and experts in the energy field. More than seventy written submissions were received and posted on a specially created Energy Strategy Website to encourage public education, dialogue and accountability. More than 100 meetings were held with interested stakeholders to discuss their views. The final strategy report reflects the advice received.

On December 12, 2001, the government released the energy strategy report entitled, "Seizing the Opportunity". The report, and its companion series of background papers in Volume II lay out a roadmap for energy policies and strategies over the sh
designed to be flexible enough to respond to changing circumstance and developments, yet remain consistent with the values and principles adopted by the province.

The strategy encompasses three major themes:

- Powering the Economy;
- Improving the Environment; and
- Securing the Future

Powering the economy sets out the opportunities that lie ahead for the province through the discovery and development of its energy resources. The foundation of a successful energy future is a business and fiscal climate that encourages large-scale investments in exploration and eventually development. The strategy sees this as a clear high priority for Nova Scotia.

Through successful exploration and development, Nova Scotians will gain benefits through new business, employment and training opportunities. The energy sector competes world-wide for investment and research funds. The strategy outlines a project-by-project approach to further the government's objectives through Offshore Strategic Energy Agreements (OSEA's).

Introducing limited and staged competition within the electricity sector will also help promote economic growth. New opportunities for exports are expected to emerge as regulatory and technological barriers are removed. In addition, new sources of renewable energy such as wind power will help create new business opportunities in many parts of rural Nova Scotia.

Improving the environment is to be achieved by setting realistic requirements for reductions in air pollutants; opening up the electrical transmission system for renewable energy producers; and by working with industry and the federal government on creating a regulatory environment whereby the fishery and the oil and gas industry may both grow and prosper.

Securing Our Future is a part of the energy strategy that looks to the energy sector as a way to recharge our economic climate. Energy research and development can help us create new energy sources in the future. Economic growth today can lay the foundation for new economic growth in the future. As revenues from offshore oil and gas grow, the net financial benefits can help us diversify our economy and help us make the transition when the offshore industry moves into decline. Once net royalties begin the Offshore Heritage Trust Fund will be established to carry out these goals.

The Directorate's work to promote investment in the offshore; help Nova Scotia companies take advantage of oil and gas opportunities; and set the stage for the use of our natural gas in Nova Scotia businesses, homes and institutions will continue in the new department.

Hon. Gordon Balser

3. INTRODUCTION

The Nova Scotia Petroleum Directorate was formed in 1997 as a stand-alone government agency responsible for co-ordinating the provincial government's oil and gas policies and oversight responsibilities. As of June 17th 2002, the Directorate's responsibilities were folded into the Department of Energy by Order in Council 2002-286. During the 2001-2002 fiscal year, the Minister responsible for the Petroleum Directorate was the Honourable Gordon Balser.

Policy Responsibilities

In general terms, all government policies with respect to the exploration and development of oil and gas and related petroleum products, onshore and offshore were the responsibility of the Nova Scotia Petroleum Directorate. In addition, the Directorate was responsible for government policy on the industrial, commercial and residential use of natural gas. Government policies with respect to other energy sources such as electricity and renewable energy as well as the use of oil products such as gasoline and home heating oil were the responsibility of the Department of Natural Resources.

Administrative Responsibilities

The Petroleum Directorate was responsible for the administration of the public interest in onshore oil and gas exploration and development. Matters of public or worker health and safety or protection of the environment are handled by the Department of Environment and Labour while the Petroleum Directorate was primarily concerned with the public's interest in the resource itself. In addition, the Directorate was responsible for royalty administration, offshore and onshore.

Legislative Responsibilities

To carry out its policy and administrative duties, the Directorate had responsibility for the following Acts of the Nova Scotia Legislature:

1. Petroleum Resources Act:

   Rights administration for onshore petroleum resources.

2. Energy and Minerals Resource Conservation Act:
   Creates a board (the Nova Scotia Energy and Mineral Resource Conservation Board) responsible for regulatory development, production, transmission and transportation activity, and general resource management.

   Note: Board was abolished on June 1, 2001 and its responsibilities transferred to the Utility and Review Board.

3. Gas Distribution Act:

Authorizes the URB (Utility and Review Board) to franchise gas delivery systems and to license the construction and operation of these systems.

4. Pipeline Act:

   Authorizes the Nova Scotia Utility and Review Board to license the construction and operation of pipelines.

5. Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation (Nova Scotia) Act:

   Establishes a jointly appointed federal/provincial board (the Canada/Nova Scotia Offshore Petroleum Board) to administer and manage offshore rights and activities. The act gives the federal and provincial ministers responsible certain powers with respect to the board's fundamental decisions.

6. Offshore Petroleum Royalty Act:
   Authorizes the collection of royalties and establishes a framework for the management, administration, and collection of royalty funds.

7. Petroleum Resources Removal Permit Act

   Not proclaimed yet. Export permits may be required prior to export of petroleum products. Current production from Sable Offshore Energy Project is covered under a binding Memorandum of Agreement.

8. Underground Storage of Hydrocarbons Act

   This act gives the minister responsible for the act the authority to establish and administer policies, programs, standards, objectives, codes of practice, directives and approval processes concerning underground hydrocarbon storage facilities Not proclaimed yet. Will be proclaimed after regulations and Code of Practise are released for public comment and finalized.

Budgetary Responsibilities
In fiscal 2001-2002 the Budget Estimate for the Petroleum Directorate provided for the expenditure of $4.958 million. Following the tabling of the budget, the Directorate was also given the task of preparing for the second phase of the Arbitration Tribunal with respect to setting a boundary line between Nova Scotia and Newfoundland and Labrador.

2001-2002 Business Plan
The Directorate's business plan for fiscal 2001-2002 anticipated a year in which progress would be made on: new investments in offshore exploration; opportunities for employment and business growth through increased offshore activity; the identification of new training needs; public education; local gas

distribution; and the development of a long-term energy strategy. To a great extent these expectations were met.

4. DEPARTMENT PROGRESS AND ACCOMPLISHMENTS

The 2001/2002 priorities supported the Directorate's overall mission of ensuring the responsible development of Nova Scotia's petroleum resources while maximizing the benefits to Nova Scotia of both onshore and offshore oil and gas activity.

Strategic Goal 1: Optimize Nova Scotia benefits from oil and gas activity through employment and supply contract opportunities, availability of natural gas, new business establishment and royalty collection.

- Monitor the Nova Scotia benefits associated with the Sempra local gas distribution franchise.

RESULT: The initial economic benefits from Sempra's activities in Nova Scotia were positive. Sempra employment reached a peak of more than 50 people before the company concluded its business model could not work and it surrendered its franchise. Opportunities in construction, marketing and installation were identified that remain valid for the new franchise-holder.

- Monitor benefits from operations of Tier I of the Sable projects, while ensuring that Nova Scotia companies are positioned, and otherwise ready for, any and all opportunities from Tier II.

RESULT: The areas of engineering design and procurement management were identified as areas where Nova Scotia could gain from experience in the first phase or Tier I of the Sable Offshore Energy Project. During fiscal 2001-2002, both ExxonMobil and EnCana made major commitments to carry out these key management and design activities in Nova Scotia. The Petroleum Directorate played a major role in encouraging companies to focus efforts on bringing this type of activity to Nova Scotia. During Tier I, these activities were mainly carried out in the United States and Europe.

Opportunities were also identified in the area of drilling rig completion. The Directorate worked with PanCanadian (which merged with Alberta Energy Corporation to become EnCana) to reduce fiscal uncertainty on the Deep Panuke Project. This enabled the company to make a commitment to Ocean Rig and create a partnership, which resulted in the Erik Raude semi-submersible drilling rig being brought to Nova Scotia for completion. This work led to peak employment of more than 1,800 people during January to March 2002 and the expenditure of more than $100 million.

Unfortunately, in March 2002, a Nova Scotia company lost the fabrication contract for the topside structure on the Sable Tier II Alma field. The Petroleum Directorate – and the successor Department of Energy – is working with producers and suppliers to identify opportunities to strengthen our competitive position.

- Properly manage and administer the royalty regime.

RESULT: During fiscal 2001-2002 the Nova Scotia Petroleum Directorate began the first royalty audit of the Sable Offshore Energy Project. The audit will establish the allowable cost base. Establishing allowable costs is a key step in calculating the return allowance, which in turn establishes the amount of royalties to be paid after the first three years of the project. To assist in the auditing responsibilities, the Directorate hired a Senior Petroleum Royalty Auditor to work with the Manager, Royalty Policy, Audit and Assessment.

- Work with industry and educational institutions to ensure that Nova Scotians are trained to fill available positions in the oil and gas sector.

RESULT: The Nova Scotia Petroleum Directorate provided key funding through the Offshore Development Fund to establish instrumentation training at the University College of Cape Breton and the Nova Scotia Community College Marconi Campus in Sydney.

The Nova Scotia Petroleum Directorate also worked with EnCana and J.D.Irving to establish a training program for offshore workers. These and other training initiatives were begun in fiscal 2001-2002 that should show results in 2002-2003. Identification of training needs and development of new programs is done in cooperation with the Department of Education.

- Attend trade shows and participate in trade missions and assist local companies with attendance at trade shows that promote opportunities in the oil and gas sector.

RESULT: The Nova Scotia Petroleum Directorate played a leadership role with the Offshore Technology Association in trade shows such as the Houston Offshore Technologies Conference April 30 to May 3 2001 and the Offshore Europe Conference in Aberdeen September 3 to September 5. The Directorate also assisted in trade promotions and missions in Calgary and New York.

- Work closely with the Canada-Nova Scotia Offshore petroleum Board to optimize Nova Scotia's involvement in offshore oil and gas initiatives.

RESULT: During fiscal 2001-2002, the Petroleum Directorate worked closely with the Canada Nova Scotia Offshore Petroleum Board and the Benefits Review Committee to ensure contracts were awarded in a

manner consistent with the principles of first consideration on a fair and competitive basis. Participation in the committee also enabled the Directorate to identify business opportunities and areas where Nova Scotia's capabilities could be economically targeted for advancement.

- Encourage and assist Nova Scotia companies to establish facilities to manufacture products for the oil and gas industry, particularly as it relates to the gas distribution project.

RESULT: The Nova Scotia Petroleum Directorate worked with the local gas distributor and potential pipe manufacturers to examine opportunities to establish a pipe manufacturing facility in the province. The effort ended following the decision by the franchisee to surrender the franchise.

- Aggressively pursue development opportunities in the areas of petrochemicals, electrical generation and investment expansion.

RESULT: The Nova Scotia Petroleum Directorate worked closely with the Department of Economic Development to pursue development opportunities in the area of energy utilization. Numerous meetings were held with a number of potential project proponents. Success in pursuing these initiatives is linked to the discovery of new long-term sources of natural gas and additional natural gas liquids.

- Administer Nova Scotia toll discounts.

RESULT: The Petroleum Directorate has temporary administrative custody of the producer rebates to encourage the use of natural gas in Nova Scotia. Details on how the local gas distributor will be able to use these producer rebates are being held in abeyance pending discussion with potential gas franchisee operators.

Strategic Goal 2
Educate all Nova Scotians on all aspects of the oil and gas industry onshore and offshore.

- Maintain the Petroleum Directorate web page and expand it to educate Nova Scotians on the oil and gas industry.

RESULT: Reviewers and users have consistently rated the Nova Scotia Petroleum Directorate web pages as a very useful source of information on Nova Scotia oil and gas exploration, development and production. Extensive new information on careers and educational opportunities was added during 2001-2002. More than 900 individuals subscribe to the e-mail update feature on the website to be kept up to date on oil and gas developments in Nova Scotia.

The Nova Scotia Energy Strategy development team created a site within the Petroleum Directorate website. The energy strategy website included an electronic document library which contained all public submissions to the strategy process. It also served as a tool to register those planning to attend workshops and provided links to other energy strategy source documents. The site also served as a place where electronic copies of the discussion paper and the final energy strategy report could be downloaded.

- Work with the Offshore/Onshore Trade Association of Nova Scotia (OTANS), Canadian Association of Petroleum Producers (CAPP), Atlantic Canada Petroleum Institute (ACPI) and petroleum rights holders of onshore and offshore properties to inform the public on the regulatory process. Educate Nova Scotians to the risks and rewards that oil and gas activity bring to communities and to Nova Scotia in general.

RESULT: Public education activity by the Petroleum Directorate in fiscal 2001-2002 was focused on development of the energy strategy.

A series of cooperative public information efforts with industry were carried out over the previous few years. During 2001-2002 efforts were more directed toward specific groups interested in learning about offshore plans and the offshore regulatory system such as the fishing industry.

- Organize and attend community open houses and present technical talks on the exploration and development potential of Nova Scotia's onshore and offshore petroleum resources.

RESULT: As noted above, the major 2002-2002 outreach and public education efforts of the Directorate was directed at developing public input into the Energy Strategy.

- Work with CNSOPB to ensure that Nova Scotians are fully aware of the offshore regulatory process.

RESULT: As noted above, the major 2002-2002 outreach and public education efforts of the Directorate was directed at developing public input into the Energy Strategy.

Strategic Goal 3
Continued development and oversight of responsible regulation of both onshore and offshore petroleum resource and activity.

- Establish a regulatory approval process to deal with subsequent offshore development proposals.

RESULT: The Nova Scotia Petroleum Directorate has been working with Natural Resources Canada and the Canada Nova Scotia Offshore Petroleum Board to establish effective and efficient regulatory approval processes. In the Nova Scotia Energy Strategy, the province committed itself to minimize provincial regulation of offshore projects that are adequately covered by other regulatory agencies. This practise is now in effect.

In addition, the Petroleum Directorate participated with the Department of Labour and Environment in establishing an environmental approval process for the Deep Panuke Project.

- Continue to ensure that the Province's decision-making powers under the *Offshore Accord Act* are exercised so as to ensure that the Province's policy, with respect to offshore exploration and development is communicated to the offshore Petroleum Board and is followed.

RESULT: The Petroleum Directorate held consultations with the CNSOPB during the development of the energy strategy and followed up with further discussions after the release of the report. In the energy strategy the province committed itself to a practise of full and active participation in the regulatory process to ensure Nova Scotians receive full benefits from the development of offshore resources.

- Continue to ensure that exploration activity for oil and gas as well as coal-bed methane in the onshore, is effectively managed.

RESULT: During fiscal 2001-2002 the Petroleum Directorate actively co-ordinated the onshore regulatory approval process through a "one window standing committee" that bring various government agencies and interests together to streamline regulatory requirements.

The Petroleum Directorate also enacted new drilling regulations in fiscal 2001-2002 through OIC2001-167. These new regulations clearly outline industry's responsibilities and government's requirements when the companies are exploring for oil and gas onshore.

- Participate in the review of exploration offshore Cape Breton.

RESULT: The Nova Scotia Petroleum Directorate was an active participate in the review during 2001-2002. It presented the Nova Scotia Energy Strategy, Volumes I and II as evidence to the Review Commission in December 2001. The Directorate also attended each of the 8 public meetings during the first phase of the review and was present during the fifteen days of public hearings in phase II. During one of those sessions, three senior members of the Directorate staff presented further evidence on provincial government policies and responded to questions.

- Continue to work with the Federal Government, the Government of Newfoundland and Labrador and the Government of France in developing a treaty dealing with the exploration for a development of cross border oil and gas fields.

RESULT: The Petroleum Directorate's Director of Resource Assessment and Royalties was a member of the Canadian Team negotiating with France on the issue of cross-border oil and gas fields. A substantial amount of work on the draft treaty was accomplished in fiscal 2001-2002. Final completion and signing is expected in 2003.

- As part of a national task force, continue to work with provincial and federal colleagues to eliminate or lessen the stakeholder impact associated with jurisdictional overlap.

RESULT: The Nova Scotia Petroleum Directorate has been working with Natural Resources Canada and the Canada Nova Scotia Offshore Petroleum Board to establish effective and efficient regulatory approval processes. In the Nova Scotia Energy Strategy, the province committed itself to minimize provincial regulation of offshore projects that are adequately covered by other regulatory agencies. This practise is now in effect. In addition, the energy strategy outlined a plan to review the Offshore Petroleum Resources Accord and update it where appropriate. The federal government agreed to carry out such a review with the province on May 15, 2002.

- Work with colleagues at CNSOPB, NRCan and Nova Scotia Department of Environment & Labour to develop and put in place offshore safety regulations.

RESULT: During fiscal 2001-2002 significant progress was made by the three governments in establishing the policy directions required for amendments to the Offshore Petroleum Resources Accord Implementation Acts. The legislative amendments required are extensive and

- Continue to streamline regulations, particularly with respect to removing references to environment and labour safety regulations.

RESULT: All statutes under the responsibility of the Petroleum Directorate have now had responsibility for regulatory matters on environment and occupational safety on petroleum exploration and development transferred to the Department of Environment and Labour. The Petroleum Directorate retained a regulatory role with respect to the management of onshore petroleum resource development to protect the public interest in such developments.

- Monitor the province-wide gas distribution franchisee's compliance with gas access targets.

RESULT: This priority was dropped as it became clear the gas access targets were a serious impediment to creating a viable local gas distribution system. As a result of public consultations during the energy strategy development process, government eliminated the artificial targets to enable potential distributors to develop a viable business model.

- Participate in phase 2 of the Utility and Review Board hearings on natural gas distribution.

RESULT: The Petroleum Directorate was an active participant in the process to develop rules governing gas marketers. One of the changes adopted in the energy strategy and in the subsequent amendments to the Gas Distribution Act was to allow a local gas distributor to also market gas. Independent gas marketers will still be permitted and the charge for distribution will be a separate toll from the charge for the gas itself.

- Work with Service Nova Scotia and Municipal Relations on appropriate municipal taxation policies for all aspects of the oil and gas industry.

RESULT: The Petroleum Directorate worked with Service Nova Scotia and Municipal Relations to establish an appropriate method of calculating assessment of transmission pipelines systems. The methodology adopted was also agreed to by Maritimes Northeast Pipelines. Work on a taxation methodology for local gas distribution is continuing within tne Department of Energy and Service Nova Scotia and Municipal Relations.

The Nova Scotia Energy Strategy set overall goals and objectives with respect to taxation of the oil and gas industry.

Strategic Goal 4
Establish overall oil and gas policy direction for the Province.

- Participate with the Department of Natural Resources in the development of an overall Provincial Energy Strategy.

RESULT: This task was effectively launched at the beginning of the fiscal year with the release of a discussion paper. Over the next eight and a half months, a core energy strategy team with members from both Natural Resources and the Petroleum Directorate and an external advisor, developed the energy strategy. The effort was greatly assisted by extensive public consultation and expert advise.

A series of seven province-wide workshops and close to 100 public submissions and a similar number of meetings with stakeholder groups ensured the final strategy reflected a Nova Scotia consensus. The Premier's Energy Forum, "Open to the World", provided a wealth of advice and guidance from a wide range of opinion. Research and analysis was conducted to ensure the strategy took advantage of the experience elsewhere and was placed into world context.

On December 12, 2001, the government released the energy strategy in a report entitled: "Seizing the Opportunity". More than 100 objectives were established with clear action steps and time frames to achieve them. A number of policies and principles were put in place at the time of release. The achievements include:

- The principle that regulatory decision-making with respect to the marine environment be carried out in a manner that

allows both the fishing industry and the oil and gas industry to grow and prosper.

- The principle that each offshore development project be designed in a way that it advances the province's energy strategy objectives including the creation of a critical mass for development of a petrochemical industry.
- The principle that all pipelines carrying gas from the Nova Scotia Offshore Area land ashore in Nova Scotia before the gas goes to market.
- The principle that federal and provincial regulators should limit the number of access routes for pipelines and other utilities from the offshore area to landfall through the establishment of acceptable corridors.
- The principle that no offshore licence or bid call be issued within 18 km of mainland Nova Scotia and Cape Breton Island without first having a process of public consultation.
- The requirement for a staged reduction in air pollutants such as those that cause acid rain, smog and other health hazards within a clear timetable.
- Adoption of the principle that market forces should be relied upon to establish the supply, demand and pricing of gas and gas liquids in Nova Scotia.

In addition the Petroleum Directorate was able to achieve the following Energy Strategy Objective within the three months remaining in the fiscal year following release of the strategy:

- Local gas distribution policies were revised to create the conditions for expansion of natural gas into businesses and homes. Proposed amendments to the Local Gas Distribution Act were released for public comment in January 2002. The amendments were passed on May 24, 2002.

- Prepare an oil and gas policy for the Province as part of the development of a Provincial Energy Strategy.

RESULT: The oil and gas policies were integrated throughout the energy strategy. As a result of the energy strategy discussion and consultation process, it became clear that all energy policies and strategies were linked from one energy source to another. For example, the use of natural gas in electrical generation is expected to grow significantly in Nova Scotia. This linkage was clearly

outlined in the decision to outline in the strategy how all forms of energy can be used to "Power the Economy".

- Develop an oil and gas policy implementation plan.

RESULT: The implementation plan for oil and gas energy sources has also been integrated into the overall energy strategy. Details of the implementation action steps are outlined in the energy strategy.

5. YEAR END DEPARTMENTAL BUDGET SUMMARY

Fiscal 2001-2002 Budget Estimate	Fiscal 2001-2002 Budget Forecast	Variance
$4.958 m	$6.433 m	$1.475 m

After the tabling of the budget for 2001-2002 in the spring of 2001, a federally appointed arbitration Tribunal ruled that no boundary line had been established between the province of Nova Scotia and the province of Newfoundland and Labrador. As a result, the Tribunal required a second phase of hearings to establish a boundary line. This hearing had not been anticipated when setting the budget for the Petroleum Directorate. Accordingly, the legal costs incurred to present Nova Scotia's case to the tribunal were an additional expense and is the major factor responsible for the variance between budget estimate and budget forecast in fiscal 2001-2002.